WAYNE, PA – On Wednesday, February 18, 2009, Congressman Joe Sestak (PA-07) met with members of the Main Line County Chamber of Commerce to discuss the landmark American Recovery and Reinvestment Act of 2009 and the effect it would have on the local community.

The Main Line Chamber of Commerce is led by Chairman Kevin P. Nicholson, Vice Chairman Stephen J. DiOrio, Secretary William J. Grim, Treasurer Barbara Fallon-Walsh, Immediate Past Chairwoman Eileen M. Connolly-Robbins, and President R. Stanley Schuck.

Congressman Sestak said, “This legislation will begin to rebuild the economy and put Americans back to work (including 143,000 new jobs in Pennsylvania) during the worst economic crisis since the Great Depression – an economy in which the housing market is in its worst state since the 1930s and turmoil in the financial markets threatens the long-term economic, health, education, and retirement security of millions of Americans.”

Congressman Sestak presented to the Chamber the reason why the Economic Stimulus Bill was necessary for the future of our community and why he fought so hard to get the legislations passed. Factors which substantially influenced his decision to vote for the bill were that in January, 598,000 more Americans lost their jobs, with a total of 3.6 million laid off workers over the thirteen preceding months, and the unemployment rate surged to 7.6%. In addition, household net worth fell close to $13 trillion after peaking a year ago, primarily because of a 25% decline in house prices and a 40% decline in stock prices.

Demonstrating the universal downturn, approximately 38 states are now in recession; retail sales, vehicle sales and industrial production are plunging downward; and a January increase in unemployment insurance claims suggest another monthly job loss of over 500,000. At the same time, state tax revenue growth has slowed as home sales, property values, and corporate profits have all fallen. This has led to a massive gap between state and local government revenues and their expenditures of over $100 billion—a record—in the third quarter of 2008.

In the 7th District, the current economic crisis adds to the fact that over the past eight years, health premiums have increased nearly 100%; education over the past six years at a public university has soared over 65%; and real income has not kept pace with inflation as over 50% of the District’s families have less real income today than in 2001.

"Since I first voted for an economic stimulus bill in September, which the Senate failed to consider, and then the Emergency Economic Stabilization Act in October, I have called for the need to pass a second economic stimulus package. I believe that the cycle we are currently experiencing can only be broken by aggressive and relentless government intervention, and one of the ways is by a significant stimulus plan to provide both quick relief to individuals, businesses, and state governments to pay their bills, and to give a strong boost to the economy. While it is clear that the market has responded to recent action -- from the Troubled Asset Relief Program and the actions of the Federal Reserve which put funding into both the credit and financial sectors, and resulted in residential mortgage rates declining; Libor (the rate banks lend money to each other overnight and to which every credit card in America is directly tied, as well as approximately 50% of all adjustable rate mortgages) falling, which is indicative that interbank lending is improving; and commercial paper rates also falling -- without the implementation of an aggressive stimulus plan, conditions will worsen quickly and further harm the economic security of my constituents, and all Americans," said Congressman Sestak.

Therefore, the American Recovery and Reinvestment Act, which President Obama will sign into law today, injects $789 billion (approximately 5% of GDP) into the economy through $282 billion in tax cuts for individuals and small businesses – providing 95% of American workers with an immediate tax cut -- and $311 billion in appropriations.

"The global financial system is in a deep crisis of limited lending. Lost jobs, and the healthcare that comes with it, along with declines in real GDP, industrial production, and retail sales, have impacted all sectors of our economy and every household," said Congressman Sestak.

To resuscitate the job market, the Economic Stimulus Bill injects $789 billion (approximately 5% of GDP) into the economy through $282 billion in tax cuts for individuals and small businesses – providing 95% of American workers with an immediate tax cut -- and $311 billion in appropriations. This bill is designed to both provide quick relief and a significant boost to our economy.

Announcing the Bill's bipartite objectives, the Congressman said, "We must immediately salvage jobs that are hemorrhaging as states -- and businesses -- cut programs and payrolls, and provide funding relief to cash-strapped citizens and businesses.  Further, we must also invest in the job creation and tax relief programs that will generate the needed jobs of the future."

The provisions of the Stimulus Bill directed at job creation and tax relief for small business include:

• The economic recovery legislation will infuse the nation's small businesses- which comprise 99 percent of American industry and employ half of the private sector workforce with billions in new lending and investment.  The provisions in the bill putting fresh capital in the hands of small business owners, which will result in the creation or retention of 400,000 jobs, more than 15 percent of the jobs the economy shed last year; and also targets billions of dollars in tax relief to small businesses, which will also helps spur growth. These provisions are designed to help entrepreneurs not only survive the recession, but to create jobs and put us back on a path of economic growth.

• In recent months, smaller firms have struggled with plunging consumer demand, while also finding that needed credit has been shut off in frozen financial markets. The small business provisions in the legislation are designed to help address these problems with new authorities for the Small Business Administration and targeted tax relief for small businesses.

Specifically, the bill will:

o Extend of bonus depreciation. Businesses are allowed to recover the cost of capital expenditures over time according to a depreciation schedule. Last year, Congress temporarily allowed businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write-off fifty percent of the cost of depreciable property (e.g., equipment, tractors, wind turbines, solar panels, and computers) acquired in 2008 for use in the United States. The bill would extend this temporary benefit for capital expenditures incurred in 2009.
 TOTAL COST: $5.07 billion

o Extend enhanced small business expensing. In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write-off the cost of these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. Until the end of 2010, small business taxpayers are allowed to write-off up to $125,000 (indexed for inflation) of capital expenditures subject to a phase-out once capital expenditures exceed $500,000 (indexed for inflation). Last year, Congress temporarily increased the amount that small businesses could write-off for capital expenditures incurred in 2008 to $250,000 and increased the phase-out threshold for 2008 to $800,000. The bill would extend these temporary increases for capital expenditures incurred in 2009.
 TOTAL COST: $41 million

o Offer 5-year carryback of net operating losses. Under current law, net operating losses may be carried back to the two years before the year that the loss arises (the “carryback period”) and carried forward to each of the succeeding twenty years after the year that the loss arises (the “carryforward period”). Losses that are carried back may generally only be used to offset ninety percent (90%) of a taxpayer’s alternative minimum tax liability. For 2008, the bill extends the carryback from two years to five years but limits it to small businesses with gross receipts of $15 million or less.
 TOTAL COST: $947 million

o By allowing businesses to improve cash flow by providing a 5-year carryback of net operating losses (NOLs), the bill would allow businesses to write off 90% of losses incurred in 2008 and 2009 against taxes assessed over the previous five years (current law limits NOL carryback to the previous two years).  This would not be available to companies that have benefited under the TARP.

o Delay Recognition of Certain Cancellation of Debt Income. Under current law, a taxpayer generally has income where the taxpayer cancels or repurchases its debt for an amount less than its adjusted issue price. The amount of cancellation of debt income (“CODI”) is the excess of the old debt’s adjusted issue price over the repurchase price. Certain businesses will be allowed to recognize CODI over 10 years (defer tax on CODI for the first four or five years and recognize this income ratably over the following five taxable years) for specified types of business debt repurchased by the business after December 31, 2008 and before January 1, 2011.

-  TOTAL COST: $1.622 billion

o Provide Incentives to hire unemployed veterans and disconnected youth. Under current law, businesses are allowed to claim a work opportunity tax credit equal to 40 percent of the first $6,000 of wages paid to employees of one of nine targeted groups. The bill would create two new targeted groups of prospective employees: (1) unemployed veterans; and (2) disconnected youth. An individual would qualify as an unemployed veteran if they were discharged or released from active duty from the Armed Forces during 2008, 2009 or 2010 and received unemployment compensation for more than four weeks during the year before being hired. An individual qualifies as a disconnected youth if they are between the ages of 16 and 25 and have not been regularly employed or attended school in the past 6 months.

o Repeal Treasury Section 382 Notice. Last year, the Treasury Department issued Notice 2008-83, which liberalized rules in the tax code that are intended to prevent taxpayers that acquire companies from claiming losses that were incurred by the acquired company prior to the taxpayer’s ownership of the company. The bill would repeal this Notice prospectively.

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o Extend Monetization of Accumulated AMT and R&D Credits in Lieu of Bonus Depreciation: Extends the provision contained in the Foreclosure Prevent Act of 2008 and allows AMT and loss taxpayers in 2009 to receive 20 percent of the value of their old AMT or research and development (R&D) credits to the extent such taxpayers invest in assets that qualify for bonus depreciation. The amount is capped at the lesser of six percent of outstanding and unused AMT and R&D credits or $30 million.

 TOTAL COST: $805 million

o Exclude Small Business Capital Gains: Allows an exclusion for individuals on the gain from the sale of certain small business stock held for more than five years.
 This change is for stock issued after the date of enactment and before January 1, 2011. Allows a 75 percent exclusion for individuals on the gain from the sale of certain small business stock held for more than five years.
 TOTAL COST: $829 million

o Adjust S Corp Holding Period: Under current law, if a taxable corporation converts into an S corporation, the conversion is not a taxable event. However, following such a conversion, an S corporation must hold its assets for ten years in order to avoid a tax on any built-in gains that existed at the time of the conversion. The bill would temporarily reduce this holding period from ten years to seven years for sales occurring in 2009 and 2010. Temporarily shortens the holding period of assets subject to the built-in gains tax from 10 years to seven years.
 TOTAL COST: $415 million

o Update Industrial Development Bonds: Modernizes certain tax exempt qualified small issue bonds or industrial development bonds (IDBs) for facilities that create or manufacture intangible property. The proposal also clarifies which physical components of any given facility are eligible for such tax exempt financing.
 TOTAL COST: $203 million

o Increase in New Markets Tax Credit: Under current law, there are $3.5 billion of New Markets Tax Credits (NMTC) available for each of 2008 and 2009. Bill authorizes additional funding for the 2008 and 2009 allocation rounds. Tax credits for the 2009 allocation round would be allowed against the alternative minimum tax.
 TOTAL COST: $815 million.

o Modify the Rules for Tax-Exempt Interest Expense Relating to Financial Institutions: Changes the determination of the portion of interest expense that is allocable to investments in tax-exempt municipal bonds.  In addition, the proposal increases the small issuer exception. Changes the determination portion by excluding investments in tax-exempt municipal bonds issued during 2009 and 2010 to the extent that these investments constitute less than two percent (2 percent) of the average adjusted bases of all the assets of the financial institution. In

addition, the proposal increases the small issuer exception to $30 million and applies the $30 million calculation at the ultimate borrower level if the ultimate borrower would separately qualify for the exception.
 TOTAL COST: $3.2 billion

o Build America Bonds: The proposal provides State and local governments with a new tax credit bond option for infrastructure projects. Allows the State or local government to elect to receive a direct payment from the Federal government equal to the subsidy that would have otherwise been delivered through the Federal tax credit.
 TOTAL COST: $4.34 billion

o Relieve Temporarily small business estimated tax payment: The bill reduces the 2009 required estimated tax payments for certain small businesses. This provision has been estimated to have no revenue effect over 10 years.

*Born and raised in Delaware County, former 3-star Admiral Joe Sestak served in the Navy for 31 years and now serves as the Representative from the 7th District of Pennsylvania. He led a series of operational commands at sea, including Commander of an aircraft carrier battle group of 30 U.S. and allied ships with over 15,000 sailors and 100 aircraft that conducted operations in Afghanistan and Iraq. After 9/11, Joe was the first Director of "Deep Blue," the Navy's anti-terrorism unit that established strategic and operations policies for the "Global War on Terrorism." He served as President Clinton's Director for Defense Policy at the National Security Council in the White House, and holds a Ph.D. in Political Economy and Government from Harvard University. According to the office of the House Historian, Joe is the highest-ranking former military officer ever elected to the Congress.*

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